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ABSTRACT

This document reports on a systematic examination of the boundary between public and private delivery of vocational education and other employment and training opportunities, in order to find opportunities to shift the boundary toward greater private involvement without sacrificing public responsibilities. In addition to an executive summary, introduction, and 54-item bibliography, the document contains six sections. The first section distinguishes between provision and production. The second section addresses several provision issues in vocational education and employment and training services. The third section is entitled Public and Private Production of Federally Provided Employment and Training Services. The fourth section describes privatization approaches for restructuring provision and production arrangements, including deregulation, tax incentives, vouchers, user fees, contracting out, total withdrawal of government involvement, and sale of assets. The market alternative, and its limitations, for production arrangements for federal employment and training programs is taken up in the fifth section. The last section contains conclusions and recommendations related to performance standards, consumer information, competitive contracting requirements and procedures, and public agency coordination and promotion of increased use of market incentives. (CML)

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Refining the Use of Market Incentives in the Public Provision of Training and Related Services in the 1990s

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Executive Summary

A frustrating human resource contradiction is apparent in the United States as we enter the 1990s: The effects of spreading labor shortages are being documented in the same forums that lament the Nation's waste of individual productive potential.

This monograph addresses this urgent public policy issue. A systematic examination of the boundary between public and private delivery of vocational education and other employment and training opportunities is provided. The objective is to find opportunities to shift the boundary toward greater private involvement without sacrificing public responsibilities.

A single question serves as a theme for this inquiry: What practical changes in federal government policies can be made to trigger voluntary responses that will serve both individual and public purposes? This is not seen as a zero–sum exercise. Adoption of our recommendations will certainly result in harmful effects for some currently sheltered vendors in the delivery system who won't survive in a competitive environment. However, their losses will pale when compared to the untapped benefits that await discovery.

Despite the common image of a massive and unyielding federal bureaucracy as the major agent of government policies and programs, American political institutions in fact are based on checks and balances among multiple power centers within the formal structure of federal government; substantial state and local discretion in the administration and operation of federal programs; shared responsibilities between government and business; and an active role for the voluntary, non–profit sector. The creation of new forms of government action (e.g., loans, tax incentives and social regulation), and the massive growth of federal grant–in–aid programs, have resulted in "third party" organizations as the major agents of federal policy and program delivery.

The problem is that many of the new public–private relationships have been allowed to drift from their intended purposes. This is exemplified by the track record of voucher use in the Targeted Jobs Tax Credit program; in concerns that have been expressed about private employment agencies being given access to placement of welfare recipients on a reimbursable basis; and in accumulating evidence that performance standards for the Job Training Partnership Act (JTPA) have had unexpected effects on local decisions about who to enroll and how to serve those who are enrolled.

What this amounts to is an indictment: The federal government has allowed "third–party" participants to gain access to the vault without being held accountable through necessary safeguards to guarantee that the government's stewardship responsibilities are respected.

The most critical policy issue raised by the privatization and devolution debates of the 1980s is whether the federal government can provide leadership in creating a comprehensive policy framework that: (1) establishes new market incentives and rules for bringing private and public interests into greater harmony, and (2) encourages more efficient and effective relationships between government and private service deliverers at the community level.

In order for this restructuring to be successful, it is critical that privatization and devolution

initiatives begin from a clear definition of vital national interests. Without a statement of vital national interests and clear provision guidelines, new privatization and devolution initiatives will proceed without clear public objectives and benchmarks from which to gauge effectiveness and efficiency compared to more traditional government alternatives.

Two basic choices in the privatization and devolution debate are:

(1) Since the federal resource commitments are so small, and the assurance of mission accomplishment is so weak, simply withdraw from the scene with confidence that self–interested parties will emerge and markets will adjust; or,

(2) agree that the federal dollars are "special purpose" commitments that would not be replaced by subnational governments and private agents, and shift attention toward defining specific targeting and performance goals in light of changing subnational and private activity.

The major problem in most privatization and devolution proposals to date is that they do not represent either choice. They fall somewhere between total withdrawal and special purpose activities.

The restructuring of federal programmatic commitments will either occur from a self–conscious reformulation by the Administration and Congress or it will occur from the ad hoc removal of the federal presence as a consequence of the relative power of specific spending coalitions fighting over declining federal resources. Self–conscious decision–making on these basic provision questions will provide a more solid foundation from which to launch effective privatization and devolution initiatives.

Future privatization and devolution initiatives will require a clear and stable federal policy on the allocation of benefits and costs in federal programs. Federal policy must first be clear on who should receive funding support with what conditions of availability. This is particularly true for poor and disadvantaged populations that reside in areas without a large and diversified provider community. These initiatives also require clear federal provision policies on who should bear the costs of these programs so that these assumptions can be built into provision and production arrangements.

The establishment and enforcement of quality standards has obvious consequences for both monopoly and constituent–specific settings: Nonconformance with the standards requires a choice between no services being offered and nonenforcement of the quality standards. Either of these outcomes has indirect equity consequences.

The challenge here is to devise creative but reliable ways to introduce quality control standards for the spending of federal funds. Some type of performance standards method is likely to be introduced when the Carl D. Perkins Vocational Education Act is reauthorized. Inexperience with the use of outcomes measures (e.g. productivity improvement, employment retention and earnings) leaves contracting agents vulnerable to the misuse of federal funds.

Efforts to understand the debate over increased use of market incentives in the provision of training and related services must begin with a clear understanding of the wide variety of provision and production arrangements already present in federally–sponsored employment and training programs. Federal policies have created a variety of government grant programs, tax incentives, and regulatory efforts. Each of these components of the systems reveals a unique com-

bination of administrative entities and service deliverers that involves different mixes of public and private service delivery.

A common feature of both the vocational education and Job Training Partnership Act sectors is that there are often no competitors in a local economy; or, if there are what appear to be potential contesters, that they promote constituent–specific images, which effectively bars them from crossing into another group's turf. One consequence of monopoly power or constituent–specific marketing is that choice is eliminated. When the provider has defined acceptable client characteristics other populations will not be served, unless new incentives can be devised to encourage a redefinition of mission.

When considering the market alternative, it is important to remind ourselves that the possibility of a market economy is dependent upon effective government. Government authority is necessary for the definition and enforcement of property rights, the definition of unlawful behavior and the consequences that can be expected to follow criminal action, and the promotion of competition and the exercise of consumer sovereignty. In addition, government involvement is usually justified on a market failure premise, which maintains that efficiency and equity are furthered by public–sector participation.

Performance–based contracting is one way to more nearly replicate the market's results—a failure to successfully market clients results in a smaller revenue flow and possible loss of future contract rights. But again, the market is not specifying the quality standards that must be met to receive payment—the government is doing this.

Calls for more reliance on "market–driven" institutional arrangements must address **how** to transform non–market institutional relationships into forms that are responsive to market incentives. Here, a "market–oriented" organization can be in either the public– or private–sector, as long as it is dependent upon revenues derived from sales to customers who have a choice of vendor as a primary source of continuing viability. Non–market organizations derive their principal sustenance from sources other than direct payments by customers—often through uncontested designation as a presumptive provider.

The absence of an effective contract termination procedure reduces the feasibility of replicating market incentives in the public sector. Even when well defined and measurable outcome measures are available, deliverers can continue to function through incremental budgeting and political power. Clear administrative regulations that require the withdrawal of government funds, or a redefinition of the provider's role, when unacceptable performance is recorded are necessary to shield the funding agency from political pressures to continue support for the provider. Such guidelines are already in use by both JTPA and vocational programs in some local areas.

Government efforts to expand the use of market incentives will need to be accompanied by ways to provide the necessary support for development and maintenance of a competitive pool of private and non–profit providers (e.g., educational institutions, private businesses, non–profit community based organizations, and volunteer agencies). The airline deregulation experience of the 1980s illustrates how difficult it is to reconcile public objectives with the actions that can be expected to emerge from a profit motive. The Armed Forces have recently begun to focus on market alternatives for the provision of non–combat facilities and services. Their approach offers a valuable lesson that could be replicated in the training and related services arena.

Some observers allege that distinctions between public– and private–sector capacities to protect individual rights have been blurred by new forms of public–private integration of both

provision and production roles and responsibilities. Ironically, privatization initiatives may result in incremental "publicization" of the private sector through increased acceptance of governmental regulation as a quid pro quo for access to public tax dollars. This is the reciprocity issue in action. Government intrusiveness should be thought of in less pejorative terms when something is asked in return.

Training and related services programs are usually defined in terms of standard human capital objectives (e.g., increased earnings, job retention and occupational improvement). There is increasing evidence that these outcomes can be measured in practical ways that do not impose an undue degree of intrusiveness on the parties that are involved.

The federal government should broaden its leadership role in performance standards by investing in the design and demonstration of compatible performance outcome measures and performance standards systems for all federal employment and training programs. This should include efforts to encourage state and local programs to develop similar performance standards systems and provide a federal clearinghouse and technical assistance program to encourage further development and implementation of performance standards in employment and training programs.

The federal government should provide leadership in the design and development of new forms of consumer information about public and private providers of employment and training services. The federal government should work with states on the development of new types of provider information and explore how this information could be incorporated into existing federal/state labor market information programs.

The federal government should promote additional research on the growth of for–profit providers in employment and training services and conduct a systematic review of the changing structure of the public and private employment and training system in the United States. Based on this research, the federal government should promote the development and dissemination of innovative competitive contracting requirements and procedures for federal, state and local employment and training programs.

The federal government should promote the development of market–based frameworks for the coordination of federal, state, and local employment and training programs at the community level. These frameworks should address the strengths and limitations of "corporate" and "market" approaches to interorganizational coordination including the integration of private and public employment and training systems.

Introduction

The 1988 Report of the President's Commission on Privatization, **Privatization: Toward More Effective Government**, begins with these words:

> *The United States is experiencing a renewed interest in the systematic examination of the boundary between public and private delivery of goods and services. The interest has been stimulated in part by concern that the federal government has become too large, too expensive, and intrusive in our lives. The interest also reflects a belief that new arrangements between the government and the private sector might improve efficiency while offering new opportunities and greater satisfaction for the people served.*

Recommendations to broaden educational choice are the Commission's only contribution to solving the Nation's frustrating human resource contradiction: The effects of growing labor shortages are being documented in the same forums that lament our waste of individual productive potential.

This monograph corrects the Commission on Privatization's failure to address this urgent public policy issue. A systematic examination of the boundary between public and private delivery of vocational education and other employment and training opportunities is provided. The objective is to find opportunities to shift the boundary toward greater private involvement without sacrificing public responsibilities.

The goal of this approach is straightforward – to develop a compelling rationale for a short list of recommended actions that can simultaneously increase the efficiency of the delivery system, and promote individual productivity.

A single question serves as a theme for this inquiry: What practical changes in federal government policies can be made to trigger voluntary responses that will serve both individual and public purposes? This is not seen as a zero–sum exercise. Adoption of our recommendations will certainly result in harmful effects for some currently sheltered vendors in the delivery system who won't survive in a competitive environment. However, their losses will pale when compared to the untapped benefits that await discovery.

In their most extreme forms, privatization and devolution initiatives call for a total withdrawal of federal government involvement. More often, public policy debates examine realistic proposals for policy decentralization and cost–sharing. Increased reliance on state and local governments and private involvement is advocated in the administration of federal programs.

These privatization and devolution proposals reflect often valid concerns about the growing cost and unknown effectiveness of many federal policies and programs. They also reflect a renewed commitment to traditional American beliefs about the proper roles of federal, state and local government entities. Historically, in the United States, government responsibility has been viewed as a last–resort complement to voluntary private actions. Current patterns in the financing, design, and delivery of public goods and services reflect this national value (Smith, 1983).

These traditional beliefs are based on the following assumptions:

- **Market Economy** – publicly valued goods and services are most efficiently produced and distributed by private markets with limited government involvement.

- **Voluntary, Non–Profit Sector** – a strong and active voluntary, non–profit sector is an important complement to the for–profit sector of a market economy.

- **Government Decentralization** – government interventions work best when they are developed and managed at the local level where they are more likely to address unique local circumstances.

Within this broader context, the privatization and devolution initiatives of the 1980s are best seen as incremental federal policy initiatives in areas that are already heavily devolved and privatized with substantial involvement from subnational governments and the private sector.

Despite the common images of massive and unyielding federal bureaucracies as the major agents of government policies and programs, American political institutions in fact are based on checks and balances of multiple power centers within the formal structure of federal government; substantial state and local discretion in the administration and operation of federal programs; shared responsibilities between government and business; and an active role of the voluntary, non–profit sector (Smith, 1975; Schultze, 1977). The creation of new forms of government action (e.g., loans, tax incentives, social regulation) and the massive growth of federal grant–in–aid programs have resulted in "third party" organizations as the major agents of federal policy and program delivery (Salamon, 1981).

A major goal of this monograph is to place these **ad hoc** actions in a systematic framework, so limited "repairs" can be undertaken. Most of the necessary parts to assemble an efficient vehicle to transport us into the 21st Century are available out there somewhere. But many of the delivery system components are rusty, hidden from view, or poorly tuned or aligned. This state of affairs simply won't suffice in a competitive race to acquire and secure international markets.

So, what is the problem that requires fixing? The problem is that many of the new public–private relationships have been allowed to drift from their intended purposes. This is exemplified by the track record of voucher use in the Targeted Jobs Tax Credit program (Lorenz, 1988); in concerns that have been expressed about private employment agencies being given access to placement of welfare recipients on a reimbursable basis (Stevens, 1986); and in accumulating evidence that performance standards for the Job Training Partnership Act (JTPA) have had unexpected effects on local decisions about who to enroll and how to serve those who are enrolled (National Commission for Employment Policy, 1988). What this amounts to is an indictment: The federal government has allowed "third–party" participants to gain access to the vault without being held accountable through necessary safeguards to guarantee that the government's stewardship responsibilities are respected.

Given the fundamental policy orientations underlying American political and economic institutions and the wide array of privatization and devolution inititatives already dominating federal policy arenas, the privatization and devolution debate in the 1990s should go beyond a discussion of the pros and cons of specific program inititatives. Rather, it should attempt to address how we can best bring together these separate initiatives into a more comprehensive federal policy framework addressing the full

array of publicly provided vocational education and employment and training services.

Readers who are "action oriented" are likely to squirm at the academic tone of the next section. We appeal to this discomfort as evidence supportive of the importance that should be given to this information. To date, the **ad hoc** staking-out of boundaries between public and private responsibilities has resulted in contradictions, inefficiencies and lost opportunities to contribute to the Nation's competitiveness. No one expected the Sooners' individual selection of sites during the Oklahoma land-rush to produce a socially optimal distribution of productivity!

The major theme of this paper is that the most critical policy issue raised by the privatization and devolution debates of the 1980s is whether the federal government can provide leadership in creating a comprehensive policy framework that: (1) establishes new market incentives and rules for bringing private and public interests into greater harmony, and (2) encourages more efficient and effective relationships between government and private service deliverers at the community level.

Any debate over a comprehensive federal policy framework for the 1990s will likely center around the basic choice between "government" and "markets" in the provision and production of public goods and services (Wolf, 1988). It will prompt renewed debates over the need to restrict the role and scope of government policy; to rethink and sharpen traditional rationales for government action in place of private markets as the mechanism to provide publicly valued goods and services, especially in light of government limitations in dealing effectively with perceived market failures. Where government action is indeed justified, such a debate will force strong considerations of the private sector as agents of government action (Schultze, 1977) and to make government organizations operate more like private businesses and markets with more attention given to "bottom-line" performance and greater flexibility and efficiency. The major issue will be how to make government agencies and quasi-public, non-profit organizations act more like "market-driven" organizations that approximate the presumed efficiencies of private, for-profit institutions operating under competitive market conditions (Wolf, 1988).

In order to be fruitful, the privatization and devolution debates of the 1980s should be broadened to address more fundamental policy issues about the strengths and limitations of the "market" approach to federal employment and training policy across the full spectrum of federal programs. It should seek more refined privatization tools and how they can be put together more effectively in establishing a new round of federally-sponsored frameworks for coordinating federal, state and local programs at the community level. The privatization debate should spark a search for policy frameworks that can accommodate these new privatization tools and retain the inherent flexibility and efficiency of market-driven programs without sacrificing policy coherence and equity considerations, especially equal access of hard-to-serve groups.

The purpose of this paper is to review the privatization and devolution issues raised during the 1980s in the context of current federal employment and training policies and programs and provide one perspective on the most important and most promising policy issues that are likely to emerge in the 1990s. We argue that the most important and least understood policy issue is whether the "market alternative" provides a viable strategy for government to more efficiently accomplish federal policy objectives. The strengths and limitations of specific privatization proposals and approaches (e.g., vouchers, tax incentives) cannot be addressed adequately in isolation from this broader discussion. We argue that any future policy debate on privatization and devolution should center on the efficiency and equity concerns surrounding the use of govern-

ment–produced "markets" for the delivery of employment and training services.

This paper first divides the privatization and devolution debate into provision and production issues (Kolderie, 1986). The next section reviews the provision questions and the traditional public policy rationale for government involvement in training and related services. This is followed by a general overview of the wide range of federally-sponsored provision and production arrangements that currently exist to finance and deliver employment and training services. We then review the full range of privatization approaches in the United States and how they can be applied to federal employment and training issues. Given this historical background and review of privatization approaches, the next section defines the major elements of "market–driven" provision and production arrangements and reviews major efficiency and equity concerns that are expressed by critics. The paper concludes with a summary statement about opportunities and recommendations to build and refine market–driven employment and training systems in the 1990s.

Distinguishing Between Provision and Production

The privatization and devolution debates reflect a major reexamination of the proper roles of government agencies, businesses, organized labor, and voluntary or nonprofit institutions in the financing, design and delivery of public goods and services in the United States (Smith, 1983; President's Commission on Privatization, 1988.) Both privatization and devolution refer to a transfer of responsibility for the provision and/or the production of a good or service from the federal government to subnational governments and/or the private sector. This straightforward definition offers no hint of the practical complexities that are encountered in attempting to analyze specific applications.

Kolderie (1986) helps organize and simplify the privatization debate with the following distinction:

> *First of all, government performs two quite separate functions. Therefore, it needs to be clear which function would be dropped under privatization. Is it the policy decision to* **provide** *a service? Or is it the administrative action to* **produce** *a service? Is government to withdraw from its role as a buyer or from its role as a seller?*
>
> *We cannot talk sensibly about "the public sector" and "the private sector" without a* **four** *part concept of the sectors. But if we combine providing and producing, government and nongovernment, we can have a useful discussion about the roles of the public and private sectors.*

It is essential at the outset to acquire a clear working understanding of Kolderie's use of the terms "provision" and "production" of a service. **Provision** involves decisions about whether to have a service, how much of it to have, meeting what quality standards, and offered to whom under what conditions of availability and cost. **Production** involves the assembly and maintenance of the resources that are needed to deliver a particular good or service and satisfy the provider's requirements.

Given this distinction between provision and production, privatization initiatives are extremely useful ways to encourage policymakers to reexamine traditional government responsibilities in the face of changing social attitudes and economic conditions in the United States. More importantly, privatization deliberations provide a unique opportunity to reexamine the mix of public–private partnership arrangements that are currently being used, and to address the associated efficiency and equity issues that emerge in different ways depending upon the specific circumstances of the partnership effort. We now turn to a separate discussion of the major provision and production issues raised by the privatization and devolution debates.

Provision Issues in Vocational Education and Employment and Training Services

Although some privatization and devolution advocates call for the total withdrawal of the federal government in a number of policy areas, these extreme views have not dominated the debate in federal vocational education and employment and training policy. The most important policy debates in these federal policy arenas are over a restructuring of the federal role in the face of the rapid growth of state and local programs; the growth and development of the voluntary, non-profit sector; and, the federal budget deficit.

In order for this restructuring to be successful, it is critical that privatization and devolution initiatives begin from a clear definition of vital national interests that require federal policies and programmatic involvement. Without a statement of vital national interests and clear provision guidelines, new privatization and devolution initiatives will proceed without clear public objectives and benchmarks from which to gauge effectiveness and efficiency compared to more traditional government alternatives.

The Advisory Commission on Intergovernmental Relations has proposed a test of vital national interest containing three necessary and sufficient conditions for federal action (ACIR, 1986):

(1) the activity is within the organizational authority of the federal government;

(2) the activity is warranted by the presence of a problem of national scope, or significantly large regional scope, that requires for its solution some measure of national control over, stimulation of, or coordination among subnational governments, private institutions, or citizens; and,

(3) the benefits (both economic and non-economic) derived from activity by the federal government exceed the activity's costs – not only the budgetary cost to government but also all other costs likely to result to society as a whole. Further, it can be established that action by the federal government designed to correct the problem will represent, in fact, the most efficient available solution, including no governmental action.

These criteria of vital national interest were reinforced and expanded by the Reagan Administration to include a firm commitment to devolution and maximum state policy discretion as well as the avoidance of any duplication of private sector activities and the maximum reliance on private sector agents (Stevens, 1986).

These privatization tests to reduce the role and scope of the federal government call for a reexamination of traditional policy rationales and government programs in search of solid answers to a variety of government provision questions. In order to review the major provision issues raised by these tests as they affect federal employment and training policy, we again follow Kolderie (1986) and discuss separately his seven provision questions under three major headings:

(1) **Service Type and Amount**

- whether to offer a service at all, and
- if so, how much of it to offer?

(2) **Allocation of Benefits and Costs**
- offered to whom,
- under what conditions of availability, and
- paid by whom?

(3) **Quality and Cost Standards**
- with what average and extreme quality standards, and
- at what average and extremes of incurred costs?

The first major provision issue that is brought into question in privatization and devolution initiatives is what types of products and services are necessary for the federal government to provide, and what amounts are appropriate given other federal policy objectives and limited federal resources.

Whether to Offer a Service at All. The history of federal employment and training policy describes a growing government intervention built on successive programmatic initiatives attempting to address specific labor market problems brought to national attention during a particular historical period (Creticos and Sheets, 1989). The first area of government intervention was universal primary and secondary education and pre–employment vocational training for new labor force entrants. The 1930s and 1940s gave rise to a commitment for a public employment service to address the needs of the unemployed and respond to national labor shortages. This was quickly followed by a broad commitment for funding vocational training and postsecondary education for veterans under the GI Bill. In the 1960s, these commitments were expanded to include employment and training programs for reducing social welfare dependence and providing equal education and employment opportunities for economically and educationally disadvantaged populations. This period also saw a rapid expansion in student grants and loans for postsecondary education, especially for lower income populations. The 1970s saw a renewed commitment to retrain unemployed workers who become displaced because of technological and economic changes. These programmatic initiatives since the turn of the century have left the federal government with a broad set of policy commitments including job search assistance and preemployment vocational education and training for new labor force entrants, the unemployed and the economically disadvantaged.

The federal provision of employment and training services can best be captured by six major programs administered by four federal agencies (See Figure 1). These programs have resulted in significant federal funding and regulatory presence among state and local programs as they come together at the community level. Direct service delivery is done by a wide variety of public and private organizations.

Federal government commitments to preemployment vocational education and job training to new labor force entrants, unemployed workers and the economically disadvantaged are based on both efficiency and equity rationales:

efficiency considerations – private enterprises and individuals will underinvest in training because of an inability to assure the capture of the rewards once the costs have been incurred, and because of information deficiencies;

equity concerns – employment opportunities for targeted populations would fall below an acceptable threshold of quality or probability without external advocacy.

The rationales for federal government commitments to other employment and training services, and to a public employment service, are basically the same: Self–interested actions by private parties are not expected to create and sustain a level of competitiveness in the Nation that will be necessary to remain a viable player in the international economy of the 1990s and beyond;

Figure 1

Federal Employment and Training Programs: Major Service Deliverers

Legislation/Program	Federal Agency	Direct Service Deliverers
Carl Perkins Vocational Education Act	Department of Education	School districts
Job Training Partnership Act	Department of Labor	State and local governments; businesses; special school districts; non–profit organizations; for–profit firms
Economic Dislocation and Worker Adjustment Act (JTPA Title III)	Department of Labor	State and local governments; non–profit organizations; special school districts; businesses; for–profit firms
Targeted Jobs Tax Credit Program	Department of Labor	Businesses
Wagner Peyser (Employment Service)	Department of Labor	State agencies
Family Support Act (Job Opportunities and Basic Skills)	Department of Health and Human Services	State and local governments; business; special school districts; non–profit organizations; for–profit firms
Higher Education Act (Student Grants and Loans)	Department of Education	State education institutions
Veterans Education Benefits Program	Department of Defense	State and local governments; special school districts; non–profit organizations; for–profit firms

and the profit motive alone is insufficient to assure opportunities consistent with today's values.

Federal employment and training policy also includes a broad set of goods and services that are presumed to be necessary to support efficient and equitable provision of employment and training services. The most important support activity is the development and dissemination of labor market information. Stevens (1986) has identified five efficiency and equity considerations in federal responsibilities to maintain public access to timely and accurate labor market information (Also see Cohen and Stevens, 1989). These include equity commitments that: (1) reject ability to pay as an acceptable criterion for access to a definable threshold of labor market information; and (2) support affirmative action advocacy on behalf of selected populations. They also include a number of efficiency considerations that assume federal involvement is necessary to: (1) secure potential benefits to be derived from any economies of scale in the collection and dissemination of labor market information; and, (2) encourage more efficient job search given tendencies for underinvestment in search by jobseekers, by employers, and even by private-sector labor market information brokers.

How Much of the Service to Offer. Although these traditional policy rationales define the need for government intervention and the types of services to be provided, they usually stop short of addressing how much of the service to offer. This decision involves other considerations such as: (1) the importance and scope of the problem given limited federal resources, and (2) the efficacy of government intervention and the degree to which benefits exceed costs without significant substitution effects. Both the self–interests of government agencies and external spending coalitions also affect how much of a service is offered.

Despite the highly publicized federal debates on funding priorities for federal programs, the federal government is a limited player in the provision of vocational education and employment and training services. It is estimated that only one out of every ten dollars spent on public vocational education services comes from the federal government. Vocational education funded through private sources (e.g., private charities, individuals, businesses, churches) diminish this share even more. The network of public employment service offices is estimated to broker no more than 15 percent of all hiring transactions in the United States: Federal commitments to other employment and training services pale in the context of state and local government and private enterprise and individual investments in productivity enhancements.

Recognition of these limited roles generates highly divergent views of how to define the federal role. Two basic choices in the privatization and devolution debate are:

(1) Since the resource commitments are so small, and the assurance of mission accomplishment is so weak, simply withdraw from the scene with confidence that self- interested parties will emerge and markets will adjust; or,

(2) agree that the federal dollars are "special purpose" commitments that would not be replaced by subnational governments and private agents, and shift attention toward defining specific targeting and performance goals in light of changing subnational and private activity.

The major problem in most privatization and devolution proposals to date is that they do not represent either choice. They fall somewhere between total withdrawal and special purpose activities. One example is the restructuring of federal categorical grants into special block grants to states and local governments. These block grants have been general purpose grants with federal funding but with only general federal

policy objectives and guidelines. This hybrid choice puts the federal government in a position of funding state policies and programs with no clear decision made on vital national interests and the need for federal funding to protect these interests.

It is clear from this brief discussion that the federal government faces a wide area of general policy commitments that are based on compelling policy rationales that involve a number of efficiency and equity considerations. Privatization and devolution initiatives will likely force renewed debate on what subset of these commitments represent vital national interests that require continued federal funding in the context of severe federal budget constraints, growing state and local intervention and growing employment and training services in the private non–profit, voluntary and for–profit sectors.

The restructuring of federal programmatic commitments will either occur from a self–conscious reformulation by the Administration and Congress or it will occur from the ad hoc removal of the federal presence as a consequence of the relative power of specific spending coalitions fighting over declining federal resources. Self–conscious decision–making on these basic provision questions will provide a more solid foundation from which to launch effective privatization and devolution initiatives.

Allocation of Benefits and Costs

After a decision has been reached to offer a service, the next major provision decision is how to allocate benefits and costs. The most important questions are: (1) who should receive the services under what conditions of availability; and (2) who should pay for the services?

Services Offered to Whom. Federal investments in training and related services are largely targeted to serve specific identified groups. Funds that are not earmarked for targeted populations are either quid pro quos to other interested parties to gain support for the targeted appropriations, or they are intended to respond to other market failures (e.g., labor market information, research and development, and program administration) which are in support of programs directed at their targeted populations.

The targeting objectives of federal vocational education and employment and training programs are under constant debate. The Job Training Partnership Act has been plagued by a continuing debate over whether services should be targeted to those most in need or those most able to benefit from services. Federal dislocated worker programs have raised questions about the status of displaced homemakers in qualifying for services. Reauthorization of the Carl D. Perkins Vocational Education Act will renew the debate about the appropriate types and levels of set-asides for targeted populations. The federal–state employment service system is committed to serving all comers, although in practice a variety of priorities for preferential service have been introduced. The public employment service system in the United States has seen its role change over 55 years, as market niches have been carved out by both public– and private–sector competitors (Cf. Organization for Economic Co–operation and Development, 1984).

In future privatization and devolution initiatives, subnational governments and private agents will require stable federal policy signals for making efficient production decisions. The market relies on signals of effective demand, which requires both a willingness to pay and an ability to pay for a service. Willingness to pay depends upon being informed about the consequences of action or inaction. Ability to pay depends upon having a source of income. The government steps in when either of these conditions is not met.

The "services offered to whom" issue can be approached in several ways:

(1) identify market failures; specify a federal commitment to serve as a target group advocate; offer private sector **production** opportunities; and be prepared to satisfy the unmet need through public–sector production if the private sector does not respond; or,

(2) go through the first three steps described in (1) above, and be prepared to adjust the price that is offered and/or the quality of service that is required until the unmet need is satisfied through private–sector responses. The public agent would announce a willingness to pay a specified amount for a designated service. If no bidders respond at this price offer, a second round of bidding would occur with a higher price offer.

The Conditions of Service Availability. Targeting decisions must also address the problem of reaching targeted populations in a wide variety of community settings ranging from inner city ghettoes to rural areas. Established vendors will act to constrain the available choices. Legislators will oppose closure of public facilities in their district. Presumptive deliverer status will be mandated on behalf of selected public institutions.

The geographic coverage problems confronted in privatization initiatives also are well known. For–profit employment agencies locate where the flow of both business and job–seekers clients is sufficient to create a profitable market opportunity. Proprietary vocational education institutions operate under similar market conditions. In most cases, targeted populations will not be totally consistent with the location of market dependent services. Many community settings may present problems in identifying appropriate and qualified service providers. Because these problems may be further magnified by privatization initiatives, Federal policies on the conditions of service availability are necessary foundations for assessing the target efficiency of these initiatives.

Creative uses of market forces have been devised in response to the need to reach targeted populations in underserved community settings. Profitable market niches are being identified using new technologies to bring isolated individuals many of the same services that have been restricted to other areas until now. Automatic dialers are used to inform job seekers of possible opportunities by telephone at any hour of the day or night. Video tape recordings of job seekers are made available to prospective employers. Subsidized use of taxi and bus services are offered to bring individuals to a central location. Telecommunication capabilities are being exploited to offer vocational education curricula in isolated settings. A wide range of public–private production mixes is observed in an attempt to find a proper balance between equitable service availability and cost consciousness.

Who Pays the Costs. The final provision of services issue covers the ultimate incidence of the costs that are incurred—should all taxpayers share in these costs, or should a benefits–derived rationale be used to charge user fees?

There is no hard and fast rule to apply here. Vocational education and employment and training services convey general benefits upon the Nation as well as upon the direct recipients themselves. Up front payment requirements introduce differential ability to pay effects, and they ignore differential probabilities of ultimate payoff on the investment that is required.

The social reciprocity standard requires that those who benefit from government advocacy ought to be prepared to respond in some way. The practical policy question is: Does the payment of taxes on earnings offer a sufficiently diffuse and equitable burden of the costs that are incurred in funding federal vocational education and employment and training services?

Those who advocate increased reliance on market forces turn this question around to ask: Can taxes be reduced in return for which individuals and enterprises will be expected to accept more of the cost burden for investing in hiring and training transactions?

These provision questions have dominated recent federal debates over user fees for the Employment Service (Stevens, 1986); privately financed retraining benefit programs such as Individual Training Accounts; and, the financing of tuition aid and employer–based training.

Future privatization and devolution initiatives will require a clear and stable federal policy on the allocation of benefits and costs in federal programs. Federal policy must first be clear on who should receive funding support with what conditions of availability. This is particularly true for poor and disadvantaged populations that reside in areas without a large and diversified provider community. These initiatives also require clear federal provision policies on who should bear the costs of these programs so that these assumptions can be built into provision and production arrangements.

Quality and Cost Standards

Having decided to act and appropriate funds, and allocate benefits and costs, the final step in providing a service is to define satisfactory performance in terms of both quality and cost standards.

Establishment and Maintenance of Quality Standards. The federal government can provide products and services through a variety of forms of action. The most common form of action in vocational education and employment and training is grant–in–aid programs that use federal funds to contract with a provider to directly deliver a service. These contracts involve specific quality standards that are required to receive payment for services. However, the federal government also can insure that publicly valued services are made available to targeted populations by mandating service delivery by private agents without direct funding support. In this case, the federal government uses regulatory policy to assure the provision of a service with required quality standards. This form of "back door spending" is being considered in the provision of medical benefits in the United States.

These two different forms of government action express an explicit rejection of "let the buyer beware" and "if the grass looks greener on the other side of the fence switch fields" attitudes. The federal government is held responsible for enforcing a property right on behalf of those who might otherwise be taken advantage of through misinformation or immobility.

The major rationales for federal participation in the definition of quality standards are:

(1) a public concern that service recipients are inadequately informed to rely on market forces to assure reciprocity between provider and client, and that the discipline of a social memory cannot be counted on to punish those who bilk their customers (particularly when alternative service providers do not exist in a local area); and,

(2) a belief that a uniform minimum threshold of service quality should be guaranteed to all citizens, regardless of where they live.

Salamon (1981) recognizes two general types of quality standards—design and performance standards. Design standards address detailed aspects of the internal administration and operation of the program. They include administrative structures and procedures and particular mixes and combinations of program activities and services that providers are required to deliver to particular clients. Performance standards specify results desired from service providers, but leave decisions on internal administration and opera-

tion to the discretion of providers (Salamon, 1981). Privatization advocates emphasize performance standards over design standards in the monitoring and evaluation of programs through government auspices. They argue that design standards are less efficient economically because of the added administrative costs and uncertainty over the production function of government programs – that is, what combination of inputs (e.g., service mixes, teacher–student ratios) that produces the greatest outputs (Schultze, 1977; Wilson, 1988).

The emphasis on performance standards is widely used in JTPA monitoring and evaluation (Bailey, 1988; National Commission for Employment Policy, 1988); has recently been applied to vocational education programs in Arizona and Florida (Stevens, 1989); and will be required when the 100th Congress' welfare reform legislation takes effect. Each of the three service areas addressed here has its own institutional history in this regard (King, 1987; National Commission for Employment Policy, 1988; Office of Technology Assessment, 1989).

Establishment and maintenance of performance standards practices is not easy (King, 1987; National Commission for Employment Policy, 1988; Office of Technology Assessment, 1989.) It is difficult to specify scope–of–work requirements in a way that assures a common understanding of what is expected but is not excessively costly to monitor. Bishop (1988) points out that employers rarely seek any direct evidence of specific competency attainment during the time spent in school. However, recurring interest in magnet school concepts suggests that a value is placed on qualitative differences among institutions. The federal interest is to improve the common understanding of these differences among all interested parties, so that market forces can be brought evenly across all federal programs.

The establishment and enforcement of quality standards has obvious consequences for both monopoly and constituent–specific settings: Nonconformance with the standards requires a choice between no services being offered and nonenforcement of the quality standards. Either of these outcomes has indirect equity consequences.

The challenge here is to devise creative but reliable ways to introduce quality control standards for the spending of federal funds. Some type of performance standards method is likely to be introduced when the Carl D. Perkins Vocational Education Act is reauthorized (National Assessment of Vocational Education, 1989; Office of Technology Assessment, 1989). Inexperience with the use of outcomes measures (e.g. productivity improvement, employment retention and earnings) leaves contracting agents vulnerable to the misuse of federal funds.

Establishment of Cost Standards. The cost of services cannot be discussed independent of the five provision issues that have been described up to this point: whether, how much, of what quality, offered to whom and under what conditions of availability.

When the members of Congress decide how much they are willing to spend on training and related services, the complex practice of tradeoffs among the other five issues begins. Bureaucrats and private–sector spending coalitions use these five provision issues to define the terms of debate for deciding upon an appropriation level. Here, there is a possible concert of interests for some methods of privatization – contracting out and the potential use of vouchers and user fees; recognizing the trainee or job–seeker's willingness and ability to pay for the services.

Most privatization proponents argue that government cost estimates are not adequate to address the complex interplay among federal, state and local programs. Cost estimates for JTPA programs rarely reflect coenrollments in Pell Grant programs and the substantial subsidies

and shared overhead provided by public educational institutions that deliver direct services. In addition, new government efforts to impose new private sector mandates and related off–budget expenditures rarely calculate the costs incurred by businesses and private citizens. These cost calculations are important in assessing the relative costs and benefits of government intervention relative to the imperfect operation of private markets.

One critical issue is arriving at a reasonable cost estimate of the type and level of service to be provided and the allowable range of costs for providing this service in various labor markets throughout the United States. Unreasonable cost expectations will have the unintended consequences of varying the type and quality of services provided in different labor markets. These cost differences are more in evidence when comparing urban and rural labor market areas.

One major objective of privatization initiatives is to realize cost savings through contracting out to private producers. Public– and private–sector cost differentials in the **production** of services have been documented (National Commission for Employment Policy, 1988; President's Commission on Privatization, 1988). These differences are traced to employee cost differences in most cases. More is said about this equity issue in the next section of the paper.

Summary of Provision Issues

The privatization debate in federal employment and training policy in the 1990s will likely focus on both provision and production issues. The major **provision** debate at the federal level will likely center around a redefinition of vital problems of "national" scope that require for its solution some measure of national control over, stimulation of, or coordination among subnational governments, private institutions, or citizens (ACIR, 1986). This privatization debate will be driven by arguments for maximum state discretion and the non–duplication of private–sector activities under conditions of severe federal budget constraint (Stevens, 1986). It will address federal withdrawal or cost–sharing in traditional employment and training policy areas, especially in area with unclear or outdated rationales for continued federal involvement or in areas without proven effectiveness where government action has resulted in no clear net benefits. It will address the need for clear quality standards that operationalize policy rationales and program objectives and promote efficiency and effectiveness in federally–funded programs.

Public and Private Production of Federally–Provided Employment and Training Services

Before addressing specific privatization approaches and a conceptual framework for assessing the market alternative, we first provide a brief background statement on the historical development and current production structure of federally–provided employment and training delivery services.

The federally–funded and regulated employment and training system in the United States is no exception. Today's federal employment and training programs exhibit a wide array of public–private provision and production arrangements. They range from the government funded and government administered Employment Service programs to government–funded TJTC and JTPA programs where services are delivered by private employers, for–profit trainers, unions, and non-profit, community–based organizations. Non–profit community–based organizations and for–profit job search and training enterprises have become major players in the training and related services systems. The displaced worker and welfare reform legislation of the 100th Congress promises to increase the roles of each of these third–party providers. A frequently unrecognized expansion of **ad hoc** public– and private–sector interdependence has occurred during the past 30 years. Within the training and related services sector spending coalitions have emerged whose interests and actions must be recognized. Irreversibilities have been built into the systems through a series of incremental actions having unintended consequences. These must be clearly understood in any future attempt to "rationalize" these systems under either "government" or "market approaches."

Policy Entrepreneurship and New Forms of Government Action

During the post–war period, the American economy produced the economic growth that permitted the expansion of government, new public policy initiatives, and growing financial support for the voluntary, non–profit sector (Smith, 1983). This expansion led to a freewheeling "policy entrepreneurship" outside the regular bureaucracy involving shared public and private responsibilities in both provision and production. It involved the widespread use of new forms of government action such as loans, loan guarantees, social regulation, insurance, government corporations, tax incentives, and various types of block and revenue sharing grants. This rapid expansion and policy entrepreneurship has resulted in a significant transformation in how federal and state governments do business—a shift from direct to indirect government involving new forms of government action based on a pervasive sharing of government authority with a variety of third party organizations including hospitals, businesses, labor unions, universities, school districts, banks, non–profit agencies, and private associations and corporations (Salamon, 1981).

Since its beginning in the nineteenth century, the grant–in–aid device has grown into a massive system of intergovernmental and interorganizational action involving over 500 programs with

State and local governments ranging from highway construction to housing and community development. The basic structure of the grant-in-aid system in the United States has also changed. Block grants are often shared between government entities and private vendors of both goods and services. The most significant change has been the increasing eligibility of private organizations as well as individuals for direct grant assistance.

This transformation of the grant-in-aid system in the United States has been accompanied by the introduction of new financing and delivery mechanisms for government programs. Direct loans and loan guarantees have grown rapidly. Tax incentives have also expanded rapidly as a major tool in government action with federal tax expenditures rising to record levels. Federal and state governments have also been active in creating new government-sponsored enterprises and public-private non-profit corporations for carrying out government business. Finally, federal and state regulations have expanded significantly beyond economic activities to include health, safety, environment and social policy.

Provision and Production Arrangements in the Employment and Training System

Efforts to understand the debate over increased use of market incentives in the provision of training and related services must begin with a clear understanding of the wide variety of provision and production arrangements already present in federally-sponsored employment and training programs. Federal policies have created a variety of government grant programs, tax incentives, and regulatory efforts (Figure 1). Each of these components of the systems reveals a unique combination of administrative entities and service deliverers that involves different mixes of public and private service delivery.

Student Grants and Loans. The largest direct Federal role in the financing of postsecondary education and training comes in the form of student loan and grant programs, including the Guaranteed Student Loan Program, Pell Grants, and GI Bill Benefits. These loan and grant programs are supplemented by State student assistance programs. These programs are administered by federal agencies but are delivered through a wide variety of public (e.g., universities, community colleges) and private (e.g., proprietary vocational school, private college) educational institutions.

Employment and Training Tax Credits. The most obvious market-driven component of the federal and state systems is the Targeted Jobs Tax Credit (TJTC) program. This program provides tax credits to private employers who hire members of special targeted disadvantaged groups. This program is administered by State Employment Security Agencies, but it ultimately succeeds only if private employers participate.

JTPA: The CETA and War on Poverty Legacy. The more recent implementation of special block grant programs beginning with the Comprehensive Employment and Training Act (CETA) and continuing with the Job Training Partnership Act (JTPA) provides a more hybrid model of public and private production arrangements. These block grant programs were built from the War on Poverty policy legacy including the multitude of categorical programs from the Manpower Development and Training Act (MDTA) and the Economic Opportunity Act (EOA) which were targeted at place-specific structural unemployment – mainly poor and minority populations.

These categorical programs promoted the formation of federally-centered "vertical functional hierarchies" (Wright, 1978) between federal agencies and community-based non-profit organizations (e.g., community action

agencies) that were organized to receive Federal funds and deliver programs and services. These programs created strong "paragovernment" spending coalitions of non- profit, community–based organizations (e.g., community action agencies) that were outside the control of local general purpose government and established State and local government agencies (e.g., welfare agencies, job service offices, and school districts) (ACIR, 1977).

The implementation of CETA decentralized and decategorized seventeen separate federal programs introduced under MDTA and EOA and shifted control of training and related service programs to general purpose local governments (ACIR, 1977). Although CETA legislation protected community–based non–profit organizations as preferred service deliverers, it did reduce the role of non–profit organizations in policy decisions and reduced the federal role to broad oversight and monitoring responsibilities (Mirengoff and Rindler, 1978). Under the CETA reorganization, the majority of employment and training programs targeted at the economically disadvantaged were administered and controlled by CETA Prime Sponsors – special government organizations controlled by chief elected officials and prime sponsor staff who made decisions on programs and services, the structure of the delivery system, and the actual service providers.

The development of the CETA delivery system and the selection of service deliverers involved difficult "make or buy" decisions concerning the control of intake and enrollment functions within the system and what client services would be provided by the prime sponsor staff and what client services would be provided through outside contracting arrangements. The CETA service delivery system of Prime Sponsors varied tremendously from largely "in–house" programs with centralized intake and enrollment and limited subcontracting arrangements to completely decentralized programs with little direct service delivery by Prime Sponsor staff (Lieske, 1978; Snedeker and Snedeker, 1978; Mirengoff and Rindler, 1978).

The CETA reauthorization in 1978 involved the addition of the Private Sector Initiative Program (PSIP), which established local business-dominated councils to plan and administer CETA Title VII programs. Private Industry Councils (PICs) were designed to give the business community a strong role in designing and administering employment and training programs. The PSIP was developed from the assumption that the failure of previous public-private partnerships was due to the absence of permanent, privately controlled "intermediary" institutions at the local level to sustain business leadership in assisting the economically disadvantaged. The administrative structure of these PICs ranged from separately incorporated, quasi–independent organizations with independent staffs to advisory bodies to the prime sponsor organization (Ripley and Franklin, 1982; Corporation for Public/Private Ventures, 1980).

The passage of JTPA in 1982 represented a major shift in employment and training policy toward a market–incentives strategy based on Private Industry Councils and prescribed standards of program performance. Private Industry Councils were established as major decision–making bodies involving shared policy–making authority with local chief elected officials and state governments. In addition, JTPA introduced state–administered performance standards systems that provide rewards and sanctions to local Service Delivery Areas (SDAs) based on SDA program outcomes such as placement rates, wages at placement, and costs per placement. The implementation of JTPA was accompanied by the introduction of performance–based contracting; increased competitive bidding between community–based organizations, public educational institutions, and new non–profit and for–

profit companies; and, the expansion of direct contracting with private employers through on–the–job training grants.

Federal–State Employment Service. The same forces that have emerged as the Manpower Development and Training Act evolved into the Comprehensive Employment and Training Act and then into the Job Training Partnership Act can be found in the transformation of public– and private–sector labor exchange services in the United States, particularly since the end of WW II. The changes that have occurred in the training and labor-exchange sectors are not unrelated – an important aspect of the government commitment to investments in training has been the discovery of an appropriate placement component.

The federal–state public employment service system is a direct producer of labor exchange services. No user fees are permitted. Simultaneously, both for–profit employment agencies and temporary help service organizations have thrived. Limited demonstrations of collaborative possibilities between the public– and private–sector agents have been conducted (Stevens, 1986). It is likely that substantial room for innovation in these respects remains untapped (Cohen and Stevens, 1989).

Secondary Vocational Education. Secondary vocational education is supported in part by federal funding from the Carl Perkins Vocational Education Act. Federal programs are administered by state vocational education agencies and delivered through special school districts. At present, private proprietary providers are not eligible to receive these funds.

Private Production: Problems and Issues. New contracting arrangements in the grant–in–aid system and the continued growth of student loan and grant programs as well as the increased willingness of private employers to contract for training and related services have favored the growth of new private, for–profit service providers. Private, proprietary vocational training institutions have become well established in the local system infrastructures, especially in urban areas. Minimum thresholds of profitable market size have limited the importance of this transformation in rural areas.

Through accreditation arrangements with federal and state governments, for–profit schools are eligible to receive student grant and loan money and compete for grant–in–aid program funds. Job search and outplacement companies are also growing rapidly, especially in the face of labor shortages in some areas and new public and private programs that provide outplacement and retraining assistance to dislocated workers. These new for–profit providers are now challenging public educational institutions and non–profit, community–based organizations for government funds. Similar developments in other policy areas (e.g. health care) have led for–profit providers to argue that public subsidies of government and non–profit agencies represent unfair competition.

The explosive growth of the grant–in–aid system, the creation of new forms of government action, and the growth of the for–profit contractor community have raised serious concerns about the blurring of traditional public– and private–sector distinctions, and associated problems of accountability and coordination.

As first presented in our discussion of federal provision issues, the movement toward privatization and "third party" government represents more than just a contracting for well–defined goods and services. It also opens the door for a transfer of government authority and policy discretion over what gets produced for whom from the public– to the private–sector. This can occur if the government partner abdicates responsibility for accurately defining the public interest and then monitoring the contracted activity to assure compliance with this standard. Many ob-

servers point to current accountability practices in the vocational education community as an example of this phenomenon. Programs can become only tangentially accountable to the elected officials who enact and oversee programs, if the public agents permit this to happen.

Third–party providers often resist efforts to expand public accountability from narrow technical questions of fiscal control and administrative procedure to include issues of program access and results. This resistance can be a particularly acute problem when no viable alternative for service delivery is foreseen. Others have argued that a growing awareness of vendor abuse will inevitably result in a swing of the pendulum toward more stringent public controls and regulation of non–profit and for–profit providers, which could be expected to increase private–sector costs and retard a willingness to innovate (Smith, 1983). The recent history of public–private relationships in health care services offers a telling example of this effect.

Substantial reliance on market incentives and for–profit production of services is already well established. A complex array of public–private arrangements has evolved to date. A continued blurring of the boundary between the public– and private–sectors can be expected despite the efforts of some policy–makers to erect a "Maginot Line" between the public– and private–sectors (Bozeman, 1987). Efforts to restructure and rationalize government policies and administrative arrangements through definitions of public and private organizations, or through differences between for–profit and non–profit entities also will not prove useful (Wolf, 1988). The more pressing policy issue is how do we continue to structure these arrangements within and between public– and private–sector organizations to improve overall efficiency and equity, while also addressing the accountability and coordination problems that these new arrangements have created?

Privatization Approaches for Restructuring Provision and Production Arrangements

As discussed previously, proponents of privatization have identified a number of approaches that have direct implications for federal employment and training policies. The most relevant privatization approaches are discussed below. Here opportunities and problems created by each of these tools of government action are explored for the provision and production of vocational education and employment and training services during the 1990s.

Most of the privatization literature in the United States focuses on state and local case studies because this is where the action has occurred to date (National Commission for Employment Policy, 1988). These case studies examine such diverse initiatives as transportation, housing, social services, education, health care, child care, forestry, military support and maintenance, and prisons and other correctional facilities (Hanke, 1985). This literature has identified a well–known spectrum of privatization options:

(1) deregulation (e.g., airline, truck, and telephone services);

(2) tax incentives (e.g., targeted jobs tax credit);

(3) vouchers (e.g., food stamps, higher education, and housing);

(4) user fees (e.g., national parks);

(5) contracting out (e.g., food service, recreational facilities, and laundry services on government installations);

(6) total withdrawal by the public sector (e.g., termination of revenue sharing block grants);

(7) sale of assets (e.g., oil and gas exploration rights, timber cutting and rangelands, and obsolete military base facilities).

Deregulation

Regulatory policies affect the level and quality of private production of publicly valued goods and services. Government uses regulatory policies to provide goods and services without bearing the direct costs of production. Deregulation removes government oversight and allows the market to accomplish its own transaction terms, while retaining market dependence on the government's continued funding.

The only major deregulation movement in current federal privatization and devolution initiatives is the change from design to performance standards in the monitoring and evaluation of federal grant–in–aid programs. As discussed earlier, performance standards reduce federal intrusion into administrative and programmatic components, thereby reducing the regulation of program activities and operations. The implementation of performance standards in JTPA was intended to remove federal regulation. It is unclear whether this federal deregulation has resulted in less government regulation or has merely replaced federal regulation with state regulation.

Except for a change in emphasis from design to performance standards in Federal monitoring and evaluation, deregulation is an unlikely

privatization tool in vocational education and employment and training policy. Given recent concerns over the abuse of student loan and grant funds by proprietary schools and the growth of an unregulated private employment and training industry, it is more likely that government regulation will be increased with more control exerted over private agents that use public funds.

Tax Incentives

Tax expenditures in the form of tax credits offered for specific hiring and training actions (e.g. the Targeted Jobs Tax Credit) currently exist, and many creative proposals are heard in each succeeding Congress. Federal tax incentives have been proposed for dislocated worker programs (Individual Training Accounts) as well as employee upgrading and retraining.

There is substantial room for innovation in offering private enterprises a simple option—hire or train members of designated target groups and receive a tax credit, or pay the taxes so someone else can be paid to do what you are unwilling to do. However, such proposals must surmount public skepticism about offering tax savings without any guarantee of a behavioral response (e.g., receiving a subsidy for hiring or training someone who would have been employed otherwise).

Recent research on the Targeted Jobs Tax Credit program has identified a number of problems in implementing tax incentive programs (Lorenz, 1988). This research suggests that for-profit brokers have discovered a market niche in which they secure government funds for employers who are not required to change their hiring practices in any way. The administrative burdens of overseeing a target efficient program of selective tax credits should be expected to be substantial, or nonconforming behavior should be expected to result. However further refinements in tax credit programs should reduce these problems.

The only other major areas of innovative government programs will likely be in the private financing of outplacement and retraining benefits for dislocated workers and tax policies for employer-financed employee upgrading and retraining.

Vouchers

The federal government has created a market for vocational education services through both Carl D. Perkins Vocational Education Act and Job Training Partnership Act funding, as well as through various student grant and loan loan programs. Except for training of its own civilian and military employees the federal government has not been a buyer of vocational education services. There is no reason, in principle, why public-private competitions for these funds cannot be created on a more widespread basis than has been attempted to date (Lee, 1988; Putka, 1989). This could be done through either the issuance of vouchers to individuals or through competitive awards to institutions. Empowerment of one or the other of these parties has very different consequences from the standpoint of public policy. Empowering targeted individuals forces institutions to respond, but this requires a viable way to achieve target efficiency—putting an ability to purchase the services **only** in the hands of deserving candidates, and perhaps constraining their range of choice among institutions through public-sector quality control. Empowering institutions forces individuals to respond to the availability of sponsorship at selected places, but this too requires establishment and routine monitoring of conformity with quality control standards. Job Training Partnership Act, the Trade Adjustment Assistance Act, the Economic Dislocation and Worker Adjustment Assistance Act, the Jobs for Employable Individuals Act, and the Job Opportunities and Basic Skills Training Program reform stipulations offer market incentives for service providers to locate and enroll eligible individuals. Administrative understanding of performance

standards provisions determines how these incentives are then transformed into actual outreach and enrollment practices, and affects subsequent program activity assignments and placement advocacy.

Several states have participated in demonstrations of the use of vouchers for placement of welfare recipients (General Accounting Office, 1986). It is not surprising to find that "creaming" is alleged to have occurred – the for–profit placement agencies chose those candidates with the best credentials, which translated into the highest probability of job placement without absorbing too much of an agency's time. This practice created a third–party effect – those who were not chosen by the for–profit agencies were now labeled as less qualified, which ultimately leads to stigmatization and avoidance of the public agency. This is a classic example of the importance of the government's problem in meeting its equity responsibilities. If the government's job placement advocacy is viewed as a last resort source of candidates by the employer community, then referral through these auspices affects a job seeker's chances of receiving a job offer. Actually, employer use of government labor-exchange services is very uneven, which makes generalizations extremely difficult (Cohen and Stevens, 1989).

One way to control an untoward stigmatization result is to revise the price schedule that is announced (i.e., the value of the voucher that is given to a specified individual) to reflect both the priority that is given to placement of each person and the difficulty that is expected to be encountered in doing so. This fine–tuning exercise is what leads some observers to despair of finding a manageable way to replicate market forces through bureaucratic means. The objective is to offer just enough to create an incentive for the desired action to happen, without adding an unnecessary bonus. A uniform national price schedule for desired services would be expected to be extremely wasteful, because of uneven local economic conditions and individual circumstances. Cost models and cost standards are designed to address these concerns. Unfortunately, much remains to be learned about the forces that influence an individual's chances of receiving a job offer. This means that substantial attention should be given to the design and evaluation of alternative ways to select and administer voucher strategies. A crucial consideration in doing so will be to devise practical ways to specify and assure conformity with the desired quality of service without excessive intrusiveness and administrative costs.

User Fees

There is plenty of room for improvement in the selective adoption of user fees. State Employment Security Agencies currently sell various labor market information and testing services (although some continue to absorb these costs as a sign of public commitment.) Local vocational education institutions are rapidly moving along a learning curve of how to tap into new sources of revenue (e.g., union–management training funds, state industry–specific training programs, and new federal initiatives.)

This new awareness and acquired experience in finding new funding sources will have two effects on the federal partner:

(1) to the extent that the federal government represents the public interest through intrusive requirements it can expect to be "crowded out" of some institutions that will now be able to draw on alternative sources of money; and,

(2) the federal government should be able to increase the price that is attached to services rendered on behalf of designated target groups.

A crucial issue in carrying out any of these methods of increased reliance on market incentives is deciding upon a generally accepted view of individual characteristics and circumstances that signal a need for federal assistance. Unfortunately, there is no single accepted theory of individual opportunity today (Osterman, 1988).

Stevens (1986) describes how Congress could amend Title VI of the Job Training Partnership Act to identify the specific services that are held to be a federal responsibility (i.e., in the Nation's interest as listed above.) Upon the appropriation of federal funds, a designated administrative authority (which **could** be the U.S. Employment Service in the Employment and Training Administration of the U.S. Department of Labor) would be charged with arranging for the **production** of the required services.

The State Employment Security Agencies would then be required to coordinate efforts among themselves, their Governors and state legislatures, and public– and private–sector vendors, to determine who would actually produce the enforcement, compliance, testing, assessment and referral services that would be conducted on a performance–based reimbursement basis.

Governors and state legislators would be required to decide what functions that would no longer receive federal funds should be continued with state revenues. Private–sector vendors of assessment and referral services would have new opportunities to expand the scope of their offerings. Individuals who are identified as eligible for the federal **provision** of services could expect a general improvement in the quality of service, arising from the competitive forces of the contracting–out process, if the scopes–of–work and contract administration practices are conducted appropriately. The importance of this contingency should not be overlooked.

Individuals who are **not** identified as eligible for federal subsidy will lose access to free services, unless another public or private entity chooses to accept this responsibility. Firms that currently list job openings with a State Employment Security Agency for testing, assessment and referral purposes could continue to do so, recognizing that they will now be charged for services that do not fall under the "national public interest" umbrella; or they could opt to purchase these services elsewhere, or even to produce them internally.

These principles are consistent with the original Wagner–Peyser Act principle of free service to all comers. The difference is that the definition of service is narrowed to reflect genuine federal interests as they have been listed above. States would retain full discretionary authority to supplement these free labor market information services.

Contracting Out

Competitive rivalry to produce the services that are provided through federal auspices is often appealed to as the most attractive solution to concerns about shoddy quality. However, this approach multiplies the costs of conducting and responding to competitive procurements.

There is a curious difference of public attitude between rivalry in the private sector, which is called market competition; and contestability in the public sector, which is called duplication and is derided as being wasteful. There is a legitimate difference of course—rivalry in the marketplace is the disciplinary force that satisfies effective demand without excessive cost; it is the lubricant that reduces market frictions. Government attempts to replicate these forces in the public sector (e.g., through the funding of community based organizations to offer labor exchange services in competition with the public

employment service) may not be subjected to the same disciplinary consequences that follow a failure to satisfy consumer demands.

The discipline that accrues from rivalry also assumes that there is contestability! A common feature of both the vocational education and Job Training Partnership Act sectors is that there are often no competitors in a local economy; or, if there are what appear to be potential contesters, that they promote constituent–specific images, which effectively bars them from crossing into another group's turf. One consequence of monopoly power or constituent–specific marketing is that choice is eliminated. When there is only one provider what you see is what you get, unless the provider can be enticed into changing the mix of offerings. When the provider has defined acceptable client characteristics other populations will not be served, unless new incentives can be devised to encourage a redefinition of mission.

Performance–based contracting is one way to more nearly replicate the market's results—a failure to successfully market clients results in a smaller revenue flow and possible loss of future contract rights. But again, the market is not specifying the quality standards that must be met to receive payment—the government is doing this.

Competitive contracting procedures have been developed for the Department of Defense in their privatization initiatives. These models provide a solid foundation for new government efforts to encourage competitive contracting in the full array of federal vocational education and employment and training programs.

Total Withdrawal of Government Involvement

The extreme form of refined use of market incentives is to simply admit that a current government commitment is a mistake and walk away from the provision responsibility. Few take this extreme position. Government involvement in training and related service activities is accepted on both equity and efficiency grounds.

Sale of Assets

The federal government's tangible assets that are currently devoted to the **production** of training and related services do not offer an attractive prospect for divestiture. The only major exception is where government owns Job Corps facilities. Recent discussions of devolution opportunities with respect to the federal–state employment security system (including unemployment compensation taxes and responsibilities) properly pay little attention to existing asset values. Most of the State Employment Security Agencies lease many of their local office sites. Military training facilities are subject to ongoing review as candidates for sale (Crosslin, Neve and Cassell, 1989).

Restructuring Production Arrangements for Federal Employment and Training Programs: The Market Alternative

The philosophy of American programs, which emphasize information about how and where to find a job and the development of skills in an institutional setting outside the workplace, has recently been compared unfavorably to the European approach, which is characterized as being **useful** to the "private calculations of the key labor market actors" (Osterman, 1988). Osterman contrasts the American focus on supply–side activities in **external** labor markets with the Europeans' involvement in creating and maintaining flexible **internal** labor markets (i.e., within firms and industry groups).

However, any comprehensive federal employment and training policy must be built on realistic assumptions about the very nature of American political and economic institutions. Any wholesale transfer of European approaches onto American institutions will likely prove unsuccessful. As discussed earlier, American political and economic institutions are unique in their commitment to decentralized power, individual choice and responsibility and the encouragement of market systems. The 1990s are expected to open a window of opportunity during which demographic changes and the dynamics of the international economy offer an unprecedented challenge for the government to promote an environment in which individual and collective competitiveness is fostered and used to promote public interests and federal policy objectives. This section explores alternative ways in which this environment might be created.

Based on this brief review of the provision and production of training and related services, it is clear that the debate over refined uses of market incentives should now be well beyond questions of how to reduce government responsibility for job search assistance and preemployment training, while increasing the private production of these services. There remains a compelling public policy rationale for continued government involvement in job search and training activities.

When considering the market alternative, it is important to remind ourselves that the possibility of a market economy is dependent upon effective government. Government authority is necessary for the definition and enforcement of property rights, the definition of unlawful behavior and the consequences that can be expected to follow criminal action, and the promotion of competition and the exercise of consumer sovereignty (Bozeman, 1987). In addition, government involvement is usually justified on a market failure premise, which maintains that efficiency and equity are furthered by public–sector participation (Schultze, 1977).

Today's labor markets reflect the effects of many past and current government actions. Government joins private parties in the definition and enforcement of contractual rights and obligations. Government administers mandatory and discretionary social insurance programs. And government invests in limited levels of training and related services. Calls for more reliance on "market–driven" institutional arrangements must address **how** to transform

non-market institutional relationships into forms that are responsive to market incentives. Here, a "market–oriented" organization can be in either the public– or private–sector, as long as it is dependent upon revenues derived from sales to customers who have a choice of vendor as a primary source of continuing viability. Non–market organizations derive their principal sustenance from sources other than direct payments by customers – often through uncontested designation as a presumptive provider.

Proposals for greater reliance on market–driven provision and/or production arrangements usually include the following features of a market–based service delivery system:

Separation of Administration and Delivery. The development of competitive markets for public goods and services is dependent upon the separation of provision and production functions (Kolderie, 1986). This separation assumes that there is a potential for competitive contracting and market flexibility in the face of labor market changes – an assumption that may prove to be false in many isolated locales. An illustration of this separation is found in JTPA programs where Private Industry Councils contract for most client services. Another example is the availability of GI Bill benefits, which can be used by veterans to purchase education and training services at any certified institution.

Competitive Contracting. Market efficiencies are realized when government agencies establish effective contracting procedures under conditions of actual or potential competition among qualified service providers. The competitive potential must be retained even after an initial advantage is realized by the winner(s) in the first round of contract awards. Competition imposes a degree of discipline on service providers that has not been successfully duplicated by administrative, legislative or private monitoring and oversight to date (Wolf, 1988). The benefits of competitive contracting are best achieved when there is a wide variety of potential service providers with easy market access and few advantages accruing to those with prior contractual experience with the funding agent. However, government can achieve some benefits from competitive contracting even in the absence of these conditions, if competitive contracting is accompanied by restrictions that control sole–sourcing when the only qualified eligible provider is unable to demonstrate prior "proven performance". This preserves contestable market conditions and facilitates market entry.

Consumer Sovereignty. Proponents of greater use of market incentives contend that a major cause of non–market inefficiencies is the separation of those who incur the costs from those who enjoy the benefits, which results in lower quality and a greater likelihood of redundant costs. The market alternative assumes that government can be made more efficient if consumers of government services provide the principal source of revenue for the programs. This "user fee" concept has enjoyed recent prominence in Congressional hearings conducted as part of the confirmation process for President Bush's nomination of Richard Darman to serve as Director of the Office of Management and Budget. An underlying premise in promoting a "user fee" approach to government's offering of some training and related services is that the administrators of the affected programs would become more responsive to labor market dynamics, and that they would act to improve the quality and cost–effectiveness of services that are provided. Employers and others who seek government services would wield the twin weapons of willingness to pay and a choice of providers. An absence of ability to pay may be sufficient justification for government subsidy, but this simply transfers the expression of a willingness to pay to another external source – the service provider must still earn the client's business. An absence of choice among providers has been mentioned throughout this monograph as a serious problem in promoting a greater reliance on market forces in rural

areas. The rigor of market discipline is enhanced when consumers are sovereign and choices are available. These attributes have been tested in various uses of vouchers (Levin, 1987; Sharp et al., 1985).

Economic Incentives. The market alternative is based on the assumption that economic incentives provide the most effective mechanism for accomplishing government objectives. Schultze (1977) argues that monetary incentives provide a more efficient implementation device as opposed to coercion and moral persuasion in accomplishing government goals. This perspective can be illustrated by the use of monetary incentives to encourage service to minorities and hard–to–serve clients in training and related services programs.

Performance Monitoring and Evaluation. Proponents of a greater reliance on market–driven training and related services systems claim that non–market systems are relatively inefficient because there are no clearly defined **and measurable** outputs for establishing competitive contracting and consumer choice conditions. As a result, the market alternative emphasizes outcomes standards over process standards in the monitoring and evaluation of programs through government auspices. Process standards address detailed aspects of the internal administration and operation of the program. They include administrative structures and procedures and particular mixes and combinations of program activities and services that providers are required to deliver to particular clients. Outcomes specify results desired from service providers, but leave decisions on internal administration and operation to the discretion of providers (Salamon, 1981). Proponents of refined uses of market argue that process standards are less efficient economically because of the added administrative costs and uncertainty over the production function of government programs – that is, what combination of inputs (e.g., service mixes, teacher-student ratios) that produces the greatest outputs (Schultze, 1977; Wilson, 1988). The emphasis on outcomes standards is widely used in JTPA monitoring and evaluation (Bailey, 1988; National Commission for Employment Policy, 1988); has recently been applied to vocational education programs in Arizona and Florida (Stevens, 1989); and will be required when the 100th Congress' welfare reform legislation takes effect.

Program Performance Information. Those who favor a more vigorous adoption of market–driven systems argue that consumer sovereignty and competition can only be achieved through expanded consumer information on the past performance of providers. These advocates claim that current federal and state labor market information are inadequate as a basis for adoption of refined uses of market incentives because they do not include information on the success of providers of training and related services in getting people jobs at competitive costs (Stevens and Duggan, 1988). Informed choices by consumers in selecting a provider (e.g., a community college versus a for–profit technical institute) and a specific curriculum are essential to promote both individual and the Nation's productivity and competitiveness (Vaughan et al., 1985).

Automated Career Information Delivery Systems now offer a broad range of descriptive information about institutions and course offerings, as well as about specific requirements for occupational preparation. These are process indicators, which rarely offer the curious user any information about the results that follow enrollment in a specific program.

Sanctions for Nonperformance. The absence of an effective contract termination procedure reduces the feasibility of replicating market incentives in the public sector. Even when well defined and measurable outcome measures are available, deliverers can continue to function through incremental budgeting and political power (Wolf, 1988). Clear administrative regula-

tions that require the withdrawal of government funds, or a redefinition of the provider's role, when unacceptable performance is recorded are necessary to shield the funding agency from political pressures to continue support for the provider. Such guidelines are already in use by both JTPA and vocational programs in some local areas.

Limitations of the Market Approach

Privatization proposals and initiatives have generated considerable controversy and debate in the United States (for international comparisons see: Shackleton, 1989; Kristof, 1989.) Many of the issues that are heard in these debates are relevant here.

Provider Monopolies and Sustaining Competitive Markets. Many critics argue that a preference for market–driven systems downplays the likelihood that provider monopolies will become a major barrier to contestable markets. It is alleged that monopolies will develop because of the small number of potential providers in many local areas, and the advantages gained by contractors who receive first round award of contracts for a particular good or service (Starr, 1985).

In order to address this limitation, government efforts to expand the use of market incentives will need to be accompanied by ways to provide the necessary support for development and maintenance of a competitive pool of private and non–profit providers (e.g., educational institutions, private businesses, non–profit community based organizations, and volunteer agencies). The airline deregulation experience of the 1980s illustrates how difficult it is to reconcile public objectives with the actions that can be expected to emerge from a profit motive. The Armed Forces have recently begun to focus on market alternatives for the provision of non–combat facilities and services. Their approach offers a valuable lesson that could be replicated in the training and related services arena.

The Army has contracted with a major hotel developer for a "temporary living facility" to serve dependent families who are moving to a new military installation, while they seek more permanent accommodations. Similarly, the Air Force has contracted for a hotel–like facility for bachelor officer and enlisted personnel on temporary assignments. And the Navy has contracted for an administrative office building. In general, facility privatization to the military means that for–profit contractors finance, construct, own, repair, maintain and operate a facility at the contractor's own risk for a specified number of years.

Of most direct relevance here, the Navy has carried out a number of privatization studies using a uniform approach (Crosslin, Neve and Cassell, 1989). The first step taken is to learn the "industry" of potential providers of the desired services. This requires extensive personal contact. Included in this step is the collection of financial and administrative information about representative firms in the industry. The Navy's second step is to create simulated financial statements reflecting how the privatized activity would be carried out. This step includes the simulation of alternative scenarios of supply, demand, price and quality options. This step prepares the Navy to be able to write requests for proposals that include adequate specificity of the service that is being sought through market sources. Without these first two steps, the Navy would be poorly prepared to solicit and evaluate bids from for–profit vendors. Before actually issuing a request for proposals, the Navy drafts "dummy" versions and holds industry forums to discuss the approach that is anticipated. The Navy is currently proceeding through these steps to solicit bids for privatization of administrative office space, hotels, dormitories, storage and recreational

facilities, child care centers and other activities for which viable for–profit enterprises exist.

Public Production and Public Values. Some critics of the perceived rush to convert non–market activities to market functions argue that some goods and services are unique in the public's perception of their importance and appropriateness for continued public responsibility. These critics argue that some public goods and services require government production because of their importance to society and their symbolic value in strengthening the commitment to community and shared public interests (Starr, 1985). This argument has been used in addressing privatization proposals for elementary and secondary education (Levin, 1987). It is not clear what the public's views are with respect to the government's responsibility for training and related services.

The challenge is to devise an appropriate merger of bureaucratic and profit motives that will create and sustain confidence that the superior government provider is appropriately allocating tax dollars to produce a valuable public service. This is necessary because the required conditions for clan action—a reliable social memory and common values, are not present in the United States (Ouchi, 1984).

Those who propose to quantify the merits of increased adoption of market incentives in the provision and production of training and related services must somehow gauge public attitudes about this reciprocity issue. Markets achieve spot equity only when transactors are well informed and of approximately equal power. Imbalance in either respect practically assures that inequity will result; the more powerful or well informed party has an incentive to take advantage of this imbalance.

This sense of shared purpose and equity can be constructed within a market framework and concerns over imbalances and inequities must be directly addressed relative to government production alternatives.

Client Creaming and Access by the Hard–to–Serve. Critics argue that market–driven systems will lead to client creaming and reduced access to program services by hard–to–serve populations, especially minorities and clients with limited education and work experience. Performance standards and the profit motive may, perhaps because of misinformation about the intent and consequences of the standards, encourage service vendors to select only more job–ready candidates, thereby restricting access by those who are most in need of assistance.

Proponents of refined use of market incentives contend that critics ignore the historical record of poor performance by non–market providers of training and related services on behalf of hard–to–serve clients (Wolf, 1988). The market alternative should be debated in terms of its **relative** advantages in serving designated target groups who have been identified as deserving public sector advocacy and priority. This is why the Navy's systematic approach to assessing the merits of market options is appealed to as a potential model for demonstration applications in the training and related services sectors. The groundwork for such applications has already been completed in preliminary studies of the process of performance standards administration under JTPA (Barnow, 1988; National Commission for Employment Policy, 1988).

Equal Protection. Private providers cannot be required to guarantee the same constitutional protections as government agencies (Moe, 1988). Government cannot abdicate its responsibility to offer this guarantee. This creates a dilemma for the public partner—how can advantage be taken of market incentives and opportunities without shirking this higher–order responsibility?

"Creeping intrusiveness" by the public agent offers a partial solution, albeit a costly one both

in terms of direct administrative expense and tensions that inevitably arise in a superior–subordinate relationship. This approach also undercuts the spirit of innovation and flexibility exhibited by the voluntary sector when a new social crisis emerges (e.g., AIDS), but before bureaucratic features become dominant.

Some observers allege that distinctions between public– and private–sector capacities to protect individual rights have been blurred by new forms of public–private integration of both provision and production roles and responsibilities (Starr, 1985). Ironically, privatization initiatives may result in incremental "publicization" of the private sector through increased acceptance of governmental regulation as a quid pro quo for access to public tax dollars. This is the reciprocity issue in action. Government intrusiveness should be thought of in less pejorative terms when something is asked in return.

Corruption and Excess Profit–Taking. Those who worry about the likely emergence of monopoly power from competitive conditions at the outset of greater reliance on market forces also express concerns about the danger of abusive actions accompanying this transformation. They contend that the complexities of contract administration, combined with the profit motive, will inevitably result in a loss of cost-effective control. Recent revelations about Department of Defense procurement practices are offered as evidence supporting this contention. Advocates of refined uses of market incentives acknowledge that there have been abuses in practice, but they point out that this does not negate the potential for effective oversight. The Navy's procedure described earlier warrants close attention to see how well the process actually works in varied applications.

The same individuals who appeal for a clear distinction between past failures and future potential also point out that excess profits that arise from monopoly market power must be weighed against the costs of non–market inefficiencies (Wolf, 1988).

Excessive Transaction and Information Costs. The transaction and information requirements of market–driven systems may be high relative to those observed in government counterparts. The crucial question, of course, is: Why does this difference arise? Critics of vouchering proposals argue that the costs of assuring that consumers are sufficiently informed to make "appropriate" choices among competing providers may outweigh the efficiencies realized through the market approach.

Proponents of voucher approaches claim that the costs of informing consumers can be expected to be lower than the administrative costs that are incurred in monitoring provider contracts. They also allege that providers can be expected to invest more of their own resources in consumer information to attract voucher holders. The government does have a compelling interest in labor market information that is independent of the interests of private organizations and individuals (Stevens and Duggan, 1988). The choice of an appropriate level and distribution of investment in labor market information is fraught with problems. Little is known about the personal and social costs of poorly informed decisions, so it is impossible to describe a precise target of "consumer illiteracy" to be eradicated.

Proposals that take advantage of newly available labor market information sources are circulating at the present time (Northeast–Midwest Institute, 1989); and the Office of Strategic Planning and Policy Development in the Employment and Training Administration of the U.S. Department of Labor has several initiatives underway to establish priorities for future Federal government investments in labor market information.

Goal Displacement from Performance Evaluation. Critics of advocacy for broader adoption of market–driven approaches to offer-

ing training and related services point to the historical record of ambiguous objectives that are not easily converted into precise and measurable outcomes. As a result, they argue, government attempts to administer performance standards on a routine basis will inevitably result in deflection away from "true" objectives and toward available measures (Starr, 1985). These critics point to the record of U.S. Employment Service accountability practices, and vocational education's preoccupation with immediate training-related placements often recorded using questionable procedures, as compelling examples of this problem; acknowledging that these aren't even public-private contract relationships, which presumably would be more likely to reflect acceptance of routinely available outcome measures.

Proponents of a market approach again counter that past weakness in practice should not negate the potential of a good idea in principle. The JTPA system offers a wide variety of case-studies that can be drawn upon to guide refined performance measurement strategies (National Commission for Employment Policy, 1988).

Training and related services programs are usually defined in terms of standard human capital objectives (e.g., increased earnings, job retention and occupational improvement). There is increasing evidence that these outcomes can be measured in practical ways that do not impose an undue degree of intrusiveness on the parties that are involved (Northeast-Midwest Institute, 1989).

Coordination Among Government Agencies Versus Increased Reliance on Competitive Forces. The issue here is straightforward: What will become of the longstanding efforts that have been made to "rationalize" the public-sector human resource delivery system by eliminating duplication, if each of the public-sector agencies is now going to be encouraged to establish its own provider-producer contract relationships with private-sector vendors?

Since the 1970s the growth of federal commitments to training and related services has been accompanied by continuous attempts to get individual agencies at the federal, state and local levels to work together to assign appropriate responsibilities to each agency. The rapid proliferation of federal programs during the 1960s, and the power of the new spending coalition of community-based organizations that had been created or strengthened by the legislation, resulted in vocal concerns about duplication of effort.

Many of the coordination efforts have come from federal mandates that require interagency involvement. These mandates, in turn, have caused frequent complaints that the appearance of cooperation is being given greater importance than the substance of what is sought. One experienced observer ridicules a count of interagency contacts as a measure of cooperation by noting that a complete absence of interagency contact might be an accurate indication that the respective administrators understand each others roles and responsibilities without external mandates to "hold hands". Most federal and state coordination efforts have adopted a corporate or "hierarchical" model, without the authority of a formal superior-subordinate hierarchy. Whetten (1981) defines the corporate type of coordination as a strong central administration that establishes system-wide policies and then monitors their implementation by subordinate agents.

Coordination among organizations in a hierarchical model is achieved through the negotiation and enforcement of system-wide divisions of labor and turf legitimacy, which establishes claims upon public resources. This approach tries to minimize duplication of client services and attempts to encourage extensive

communication and client flows among the cooperating agencies.

Market–driven systems are based on a fundamentally different approach to coordination. As discussed above, markets place a premium on outcomes, while giving less emphasis to process considerations. In addressing coordination among organizations this approach stresses the establishment of a uniform set of system–wide performance measures that are applied to all participating agencies. Process matters are then devised by the cooperating agencies, without hierarchical instruction or mandate.

The market approach encourages service deliverers to make their own coordination decisions at the lowest jurisdictional level in pursuit of a common menu of performance objectives. This "mutual adjustment" (Whetten, 1981) form of coordination assumes that contractual arrangements will develop naturally between public and private organizations, depending on complex "make or buy" decisions made under competitive market pressures. In the market approach duplication of client services is expected because of the substantial transaction costs that would be incurred to achieve administrative coordination to eliminate such overlap. However, the market approach does assume that **inefficient** duplication will be eliminated as service deliverers identify and nurture specialized niches in which they have a distinct advantage. The source of this advantage may reflect service functions and/or constituent appeal.

Potential Limitations Reviewed. It should be clear from this enumeration of possible problems that can arise in an attempt to promote greater reliance on market forces in the provision for and production of training and related services; and, that few of the answers are already agreed upon. Critics of expanded use of market incentives can continue to throw cold water on proposals, and advocates can beat the drums for innovative actions, because compelling evidence is not available to put the contentious issues to rest.

It is in this context that specific recommendations for action are offered in the concluding section of the paper. These recommendations are intended to reduce the number of unanswered questions that currently muddy the privatization debate with respect to training and related services.

Summary of the Market Approach

The market approach is summarized in Figure 2. This approach is based on three major arguments about the non–market failure. The first argument is the inherent tendency for excessive and rising costs because of the separation of the funding source and the consumer of services—separation of costs and revenues (Wolf, 1988). The market solution as described above is the establishment of greater consumer sovereignty and improved consumer information. The second and third arguments address the problems of noncontestability with the market solution involving improved performance information, performance standards, competitive contracting procedures and sanctions for nonperformance. As discussed in the first part of the paper, effectiveness of each one of these forms of action depends on the presence of the other components of a market–based system.

The limitations of the market approach and possible refinements for addressing these limitations are summarized in Figure 3. Further research will be necessary to understand the interdependence of these components and how they can be refined to overcome the limitations addressed in this discussion.

Figure 2

Non–Market Limitations and the Market Alternative

Non–Market Failures	Market Solutions	Possible Forms of Government Action
Excessive costs relative to market value because of separation of funding source and consumers	Reestablish the market linkage between financing and consumptions by increasing consumer sovereignty including consumer control and choice	Employer grants and tax incentives Vouchers and user fees Performation information on service providers
Excessive costs and the absence of market responsiveness and flexibility because of non–contestable production arrangements	Make all production arrangement contestable by separating program funding and administration from program delivery; encourage competitive contracting; increase consumer information; introduce sanctions for non–performance, especially under sole–source contracting arrangements	Competitive contracting Performance information on service providers
Redundant costs because of barriers for removing non–performing government and quasi–public organizations from production arrangements	Establish sanction mechanisms that would automatically remove the right of service providers to receive government funds when proven performance cannot be demonstrated	Performance standards Sanctions for non–performance

Figure 3

Market Limitations and Refinements: Federal Policy Issues for Research, Demonstration and Technical Assistance

Market Failure	Refinement of Market Approach	Federal Research, Demonstration and Technical Assistance
Unexpected costs in preventing monopoly and sustaining competitive markets	Maintain competitive market instituting new contracting procedures under competitive and sole–source arrangements	Develop and disseminate contracting procedures from existing module Technical assistance to state and local governments in their application
Target inefficiencies due to client creaming and access barriers for the hard–to–serve	Refine and redirect economic incentives by concentrating higher subsidies on hard–to–serve and lowering the risks through performance standards adjustments	Assess impacts of higher government subsidies on service to hard–to–serve Assess impact of performance standards adjustments on services to hard–to–serve
Unintended goal displacement and inefficiencies from inappropriate performance measurement	Develop multiple performance indicators for skill competencies and productivity and continually improve their validity and reliability with employer review and research	Promote development of second generation of performance measures addressing competencies as well as employment and earnings Promote expansion and refinement of measure to all federal programs
Excessive transaction and information costs due to increased consumer responsibility and choice	Reduce informational requirements on program performance and seek ways to integrate performance information into existing labor market information delivery systems	Develop simple models for performance information and assess costs in development and dissemination Assess additional costs of delivery through state career information systems

Conclusions and Recommendations

A quick scan of the bibliography that follows this concluding section makes it abundantly clear that the debate continues in books, journals, newspapers and public forums. The recommendations that are offered here are meant to sharpen the terms of this dialogue, so sensible actions can be devised and put into place.

Performance Standards

Substantial amounts of exploratory work on alternative measures and approaches to their routine application are occurring in different locations and institutional settings throughout the Nation. This is a perfect example of non-federal production, as this term has been used throughout this monograph. An essential federal responsibility is to assure that the information that accrues from these independent efforts becomes available to the entire community of interested parties. Regional forums on labor market information and on employment service innovations, which have been held across the Nation through U.S. Department of Labor sponsorship during the current fiscal year, offer one way to accomplish this objective. The annual four-week Harvard Institute in Employment and Training Administration, which was also sponsored by the U.S. Department of Labor from 1972–1981, created an exceptional professional network of research and administrative personnel from many organizations throughout the employment and training system.

The point here is that the federal government does not have to **produce** the performance standards, but it should accept the responsibility for **facilitating** refinements in a systematic manner. This responsibility will be of particular importance as reauthorization of the Carl D. Perkins Vocational Education Act is considered during the current session of Congress; and as renewed attention is given to public labor–exchange options and to refined procedures for serving dislocated workers.

The federal government should broaden its leadership role in performance standards by investing in the design and demonstration of compatible performance outcome measures and performance standards systems for all federal employment and training programs. This should include efforts to encourage state and local programs to develop similar performance standards systems and provide a federal clearinghouse and technical assistance program to encourage further development and implementation of performance standards in employment and training programs.

Consumer Information

Here, too, the federal government's responsibility should be one of leadership. The states are already taking varied steps to improve public awareness of historical performance by both public and private organizations in the training and related services field. The federal government can make selective investments to promote such activities, but again its most important role is to assure widespread awareness of what is being learned in isolated demonstrations of new approaches.

A particularly acute problem is about to occur as individual states move along the learning curve of awareness about available data sources that have not been used to date. Florida's merger of

private, state and local government, and federal personnel records for evaluation of secondary and postsecondary vocational education programs is certain to result in a number of requests by other states for similar access to federal personnel information. There is an urgent need to begin to anticipate how such requests will be handled. The wage–records forum that was held in January 1989, sponsored by the Office of Strategic Planning and Policy Development in the Employment and Training Administration of the U.S. Department of Labor, exemplifies how the federal government can carry out this responsibility (Crosslin and Stevens, 1989). Congressional interest generated in this forum offers a possible solution to the question of where federal funds would come from to support acceptance of this leadership responsibility.

It must be recognized that informed consumers are a threat to organizations that have something to hide. There will not be universal enthusiasm for the broadcasting of historical performance information. Arizona's experience with a poorly thought through and hasty introduction of public information about occupational training program performance offers a telling example of this point. Care must be exercised to include those who will be affected by the release of information, so that their expertise is tapped and their legitimate concerns are heard. Exclusion from the developmental process breeds suspicion about motives and increases the likelihood that subsequent hostility will be encountered.

The federal government should provide leadership in the design and development of new forms of consumer information about public and private providers of employment and training services. The federal government should work with states on the development of new types of provider information and explore how this information could be incorporated into existing federal/state labor market information programs.

Competitive Contracting Requirements and Procedures

The Navy's procedures for conducting privatization studies offer a model that is available for adaptation to the training and related services field. Demonstrations of these methods can be undertaken, and successful approaches can then be brought to the attention of state and local administrators.

The federal government should also accept responsibility for collecting and analyzing systematic information about the growth of for-profit providers in the training and related services field. This inquiry should include the rapid expansion of state commitments to industry–specific training, which has recently shifted from subsidized attraction of new employment to investments in retraining of incumbent employees. At the present time the states are ill–prepared to respond to powerful corporate requests for state assistance. The federal government can serve a valuable role in continuing to assist the states to devise effective criteria for evaluating proposals and subsequent performance. The National Commission for Employment Policy's current sponsorship of the National Governors' Association in this regard is an important first step. The Office of Strategic Planning and Policy Development, and the Commission on Workforce Quality and Labor Market Efficiency, both in the U.S. Department of Labor, have studies underway of the explosive growth of for–profit "personnel consultant" (i.e., employment agency) activities.

The federal government should promote additional research on the growth of for–profit providers in employment and training services and conduct a systematic review of the changing structure of the public and private employment and training system in the United States. Based on this research, the federal government should promote the development and dissemination of

innovative competitive contracting requirements and procedures for federal, state and local employment and training programs.

Public Agency Coordination and Promotion of Increased Use of Market Incentives

The market approach that has been examined here challenges public–sector agency commitments to coordinated administration. The federal government is the appropriate entity to facilitate orchestrated studies of how performance–based contracting practices can be integrated into ongoing coordination efforts among public agencies.

Tensions inevitably arise when contracts between public agencies are not renewed and private vendor contracts are substituted. Creative approaches to anticipating and responding to these tensions can be devised and brought to the attention of state and local administrators. An important part of this activity should be to provide government agency administrators with the best available information about the relative merits of public– versus private–sector contracting. Thus armed, it will be easier for managers to fend off political pressures to maintain presumptive deliverer relationships with public–sector partners, when private–sector performance can be shown to be consistent with public objectives and more cost effective than public–sector production of the service.

The federal government should promote the development of market–based frameworks for the coordination of federal, state, and local employment and training programs at the community level. These frameworks should address the strengths and limitations of "corporate" and "market" approaches to interorganizational coordination including the integration of private and public employment and training systems.

Conclusion

The recommendations that are set forth here amount to a challenge to the federal government to make a limited investment in the continued "rationalization" of the training and related services field in the United States. This investment should be focused on finding out what state and local organizations, both public– and private–sector, are doing and disseminating this information throughout the system. Technical assistance in how to **use** the information remains a weak link in the chain of cost–effective administration – only the federal government can provide the umbrella of technical assistance coverage that is needed to shield the system from unnecessary mistakes.

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